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TAGS: [EAID](#) [ECON](#) [EFIN](#) [IT](#) [IRAQI](#) [FREEDOM](#) [AFGHANISTAN](#)

SUBJECT: ITALY'S DEVELOPMENT ASSISTANCE IN DECLINE

REF: A. ROME 117

[B.](#) ROME 28

[C.](#) ROME 27

SENSITIVE BUT UNCLASSIFIED, NOT FOR INTERNET DISTRIBUTION.

[¶1.](#) (U) SUMMARY: In view of Italy's extraordinary 27.6% cut in 2006 foreign assistance from 2005 levels, DCM called on Giuseppe Deodato, Ministry of Foreign Affairs (MFA) Director General for Development, recently to hear his views and ensure continued good cooperation on development assistance.

[¶2.](#) (SBU) Deodato said new funding for Iraq reconstruction would be handled by the MFA's Middle East Office, expressed dismay over poor coordination between the EU's foreign assistance programs and its member states' foreign assistance programs, and identified Italy's priorities for assistance, including Sudan, Somalia, and North Africa. Despite declining resources, Italy has so far delivered on Iraq: all but but five million of its Madrid pledge for Iraq has been disbursed. On Afghanistan, the GOI plans to fulfill its Berlin commitments of 145 million euros over three years (ref C). However Italy's shrinking budget allocation for development is a worrisome trend that could affect it's ability to maintain its current role in international affairs. END SUMMARY.

Background: A Casualty of a Weak Economy

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[¶3.](#) (U) The slashed development budget is part of the continuing downward spiral of Italy's foreign assistance budget, which has declined in tandem with the stalled Italian economy (ref B). The MFA's Development Cooperation Office, which Deodato heads, has also suffered from a loss of confidence by the Italian Parliament because of a corruption scandal in the nineties. Since the MFA established tight budgetary and accountability controls to counter possible corruption, the Development Cooperation's disbursements have drastically slowed. As a result, the Parliament has made the Protezione Civile, originally an agency established to handle domestic national disasters and emergencies, the conduit to disburse funds rapidly for international disasters.

[¶4.](#) (U) Italy, which once posted a 0.42% of GDP assistance budget, is in the unenviable position of announcing this year that the combination of the foreign assistance budget and the Paris Club debt relief for 2006 totals only 0.12% of Italy's GDP, one-third of the EU average of 0.36%, or 400 million euros in 2006 versus 552.6 million in 2005. No decisions have yet been made on where the cuts will be made. Italy has promised to honor its commitments in Afghanistan.

[¶5.](#) (U) On Iraq, at a press conference February 3, MFA spokesman Pasquale Terracciano said Italy's focus in Iraq during the first semester of 2006 will be to progressively reduce its military presence and increase economic reconstruction and democratic institutions assistance. The Parliament passed a decree February 10, which included continued support for Iraq through June 30, 2006. Italy's strategy will be to focus on three areas: Baghdad, Kurdistan, and Dhi Qar Province; Italy has earmarked half its allotment for Dhi Qar. Institution-building initiatives will focus on the health sector and on infrastructure (water and transportation), and its training and institution-building projects will focus on federalism, the electoral process, and combating corruption. In the health sector, the GOI and the Italian Red Cross have devised a plan to reorganize the health sector and rehabilitate hospitals and clinics in Baghdad and Dhi Qar. In addition, under MFA Coordination, the Italy-based Mediterranean Institute for Hematology will provide infant cardiology and cardio-surgery units in Kurdistan.

Iraq Assistance: Whither the PRT?

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[¶6.](#) (SBU) DCM raised the recent decree passed in Parliament to

authorize funding for continued operations in Iraq through June 2006. Deodato pointed out that MFA Development Cooperation has no authority over the portion of funds designated for reconstruction projects. The funds will be disbursed by the MFA Director General for the Middle East, Riccardo Sessa, and will be tied to continuing military assistance.

¶17. (SBU) Deodato expressed concern over the continuing military influence over Iraqi reconstruction priorities. He said that the application of the Provincial Reconstruction Team model has had some difficulties in the past, and recommended a more flexible approach for the use of funds for the PRT reconstruction projects. He believes a top priority should be rapid, "grass-roots" assistance to meet Iraqi needs. Deodato hopes to provide credit to Iraq; but after the 2005 Paris Club debt cancellation, funds available for loans have been reduced because the rotating loan fund at the Ministry of Finance has not been replenished.

Focus on Horn of Africa, Mediterranean Countries

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¶18. (SBU) Deodato said other Development Cooperation priorities include Somalia and the Ethiopia-Eritrea Conflict. He noted that four years ago, Eritrea expelled the Italian Ambassador at the time. He compared Eritrea's President Afewerki to Libya's Muammar Al-Qaddafi and characterized relationships between Italy and Eritrea as strained. Despite this, Eritrea had requested a 30 million euro assistance package from Italy; however, Italy will require the return of property in Eritrea belonging to Italian citizens as a condition for the assistance to be disbursed. In addition, Deodato said a new law in Eritrea enacted last month, which restricts Non-Governmental Organization (NGO) activities, had essentially cut off the operations of seven Italian NGOs operating in Eritrea.

¶19. (SBU) On Somalia, Deodato speculated that Belgium designated an Ambassador, based in Nairobi, to the Transitional Federal Government of Somalia (TFG) due to the strong interest on the part of Louis Michel, former Belgian Deputy Prime Minister and current European Union Development and Humanitarian Aid Commissioner. Italy followed suit on January 5 by designating Ambassador Lanata as Italian Ambassador to the TFG (ref A). Somalia has asked Italy for assistance in restructuring its central bank.

¶10. (SBU) Deodato said Italy had a strong role in the political negotiations in Sudan, because of Barbara Contini, Italy's representative in Darfur. Contini stayed in the region for over a year, and implemented thirty successful projects. Deodato was particularly critical of the World Food Program (WFP) feeding program, which feeds over 150,000 Sudanese. He said these people were not war refugees, but rather were drawn by the WFP free food. He said the situation in Sudan was "enormously complex" and remained a top priority for his office.

European Union Development Cooperation and Italy

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¶11. (SBU) Deodato expressed dismay over coordination difficulties between the EU and Italy. He said the EU's development assistance relative to Italy's is "enormous," with the EU budgeting some seven billion euros. He also said that UK development contractors and grantees are able to take better advantage of EU tenders for foreign assistance projects, compared to Italian contractors/grantees, given UK speed and bureaucratic agility.

Comment: Open Door, but Don't Forget Systemic Limitations

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¶12. (SBU) Up until now, the Embassy has met either a closed door or long delay in getting information from the Office of Development Cooperation. This has meant a lagged response to Washington requests for information regarding Italy's plans on foreign assistance to a particular client state. We believed these delays were due not only to Italy's infernal red tape, but also to Italy's embarrassment at what was a shrinking pool of assistance funding, and the consequent difficulty in establishing Italy's priorities for the many requests for foreign assistance funding.

¶13. (SBU) Deodato did confirm that he must triage many requests from us and others, but he also said Iraq and Afghanistan were priorities for Italy. Beyond Italy's programs in both these countries, we believe he and others in the GOI will continue to steward their limited 2006 funding carefully and allocate it to foreign assistance projects in Italy's direct national interest and not necessarily as a result of request from others, (i.e., the United States) for support to a developing country in need. END COMMENT  
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